

## Management's Discussion and Analysis

This section of Waukesha County's comprehensive annual financial report presents a discussion and analysis of the County's financial performance during the fiscal year ended December 31, 2002. Please read it in conjunction with the transmittal letter at the front of this report and the County's basic financial statements following this section.

### FINANCIAL HIGHLIGHTS

The assets of the County exceeded the liabilities at the close of 2002 by \$327.2 million (*net assets*). Of this amount, \$104.5 million (*unrestricted net assets*) may be used to meet ongoing obligations to citizens and creditors, \$9.8 million is restricted for specific purposes (*restricted net assets*), and \$212.9 million is invested in capital assets, net of related debt.

The government's total net assets increased by \$15.4 million. Governmental activities increased the County's net assets by \$15.7 million. This increase was partially offset by a small (\$280,400) decrease in business type activities net assets.

On December 31, 2002, the County's governmental funds reported combined fund balances of \$102.0 million, an increase of \$11.8 million from 2001. Approximately \$31.3 million, or 31% of the combined fund balance, is unreserved and undesignated.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the County's basic financial statements. The County's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements** are designed to provide readers with a broad overview of the County's financial statements, in a manner similar to a private-sector business.

- The *statement of net assets* presents information of all County assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.
- The *statement of activities* presents information showing how net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave).

Both of these government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the County include justice and law enforcement; health and human services; environment, parks, and education; public works, and general government. The business type activities of the County include radio services, golf courses, ice arenas, exposition center, materials recovery facility, and airport.

The government-wide financial statements include not only Waukesha County itself (known as the *primary government*) but also a legally separate Housing Authority for which Waukesha County is accountable. Financial information for this component unit is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 27-28 of this report.

**Fund financial statements** are groupings of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The County, like other state and local governments, uses fund accounting to ensure and demonstrate finance-related legal compliance. All of the funds of the County can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

- *Governmental funds* are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental funds financial statements focus on *near-term inflows and outflows of spendable resources*, as well as *on balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a county's near-term financial requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By so doing, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The County maintains 25 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures and changes in fund balances for the General, Human Services, Long Term Care, and Debt Service funds, all of which are considered to be major funds. Data from the other 21 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The basic *governmental fund* financial statements can be found on pages 30-33 of this report.

- *Proprietary funds* are maintained two ways. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The County uses enterprise funds to account for the airport, radio services, golf courses, ice arenas, exposition center, and materials recovery facility. *Internal service funds* are an accounting device used to accumulate and allocated costs internally amount the County's various functions. The County uses internal service funds to account for vehicle/equipment replacement, central fleet maintenance, records management, communications, risk management/self-insurance, collections, and end user technology. Because these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

Proprietary fund financial statements provide the same type of information as the government-wide financial statements, only in more detail. The Airport is the only operation considered to be a major fund of the County. The County's seven internal service funds are combined into a single aggregated presentation in the proprietary funds financial statements. Individual fund data for the internal service funds is provided in the form of *combining statements* elsewhere in this report.

The *proprietary funds* financial statements can be found on pages 35-37 of this report.

- *Fiduciary funds* are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the County's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The fiduciary fund financial statements can be found on pages 39-40 of this report.

**Notes to the Basic Financial statements** provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found on pages 41-77 of this report.

**Required Supplementary Information** is presented for the budgetary schedules of the general fund and major special revenue funds.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

This year is the first period the County applied Governmental Accounting Standards Board (GASB) Statement 34. The County has not restated prior periods for purposes of providing the comparative data for the Management's Discussion and Analysis (MD&A) because certain prior year information is unavailable. However, in future years, when prior-year information is available, a comparative analysis of government-wide data will be presented.

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. For the County, assets exceed liabilities by \$327.2 million at the close of the most recent fiscal year.

### Statement of Net Assets

	Governmental Activities	Business-type Activities	Total
	2002	2002	2002
Current and other assets	\$ 229,555,251	\$ 12,475,531	\$ 242,030,782
Capital Assets	222,808,100	40,991,162	263,799,262
Total Assets	452,363,351	53,466,693	505,830,044
Current and other liabilities	108,527,106	1,495,701	110,022,807
Long-term liabilities	68,623,520	-	68,623,520
Total liabilities	177,150,626	1,495,701	178,646,327
Net assets:			
Invested in capital assets, net of related debt	171,944,688	40,991,162	212,935,850
Restricted net assets	9,763,548	-	9,763,548
Unrestricted net assets	93,504,489	10,979,830	104,484,319
Total net assets	275,212,725	51,970,992	327,183,717

The largest portion of the County's net assets (65%) reflects its investment in capital assets (e.g. land and easements, structures and improvements, infrastructure, and equipment), less any related debt used to acquire those assets that is still outstanding. The County uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Unrestricted net assets comprise 32% of the County's net assets. These assets may be used to meet the County's ongoing obligations to citizens and creditors.

The remaining balance of the County's net assets, 3%, represents resources that are subject to external restrictions on how they may be used.

At the end of the current fiscal year, the County reported positive balances in all three categories of net assets, both for the County as a whole, as well as for its separate governmental activities.

The County's 2002 revenues totaled \$194.4 million and expenses totaled \$179.3 million, resulting in an increase in net assets (after considering transfers and capital contributions) of \$15.4 million. The table below and the narrative that follow consider the operations of governmental and business-type activities separately.

### Statement of Activities

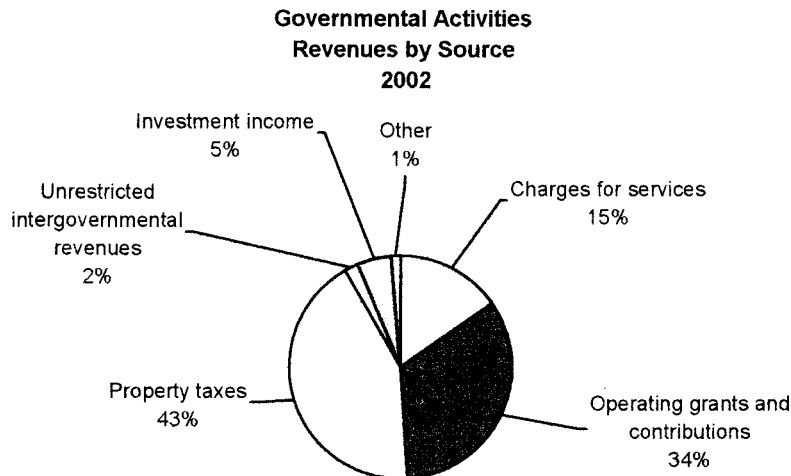
	Governmental Activities	Business-type Activities	Total
	2002	2002	2002
Revenues:			
Program revenues:			
Charges for services	\$ 28,205,071	\$ 6,482,596	\$ 34,687,667
Operating grants and contributions	61,829,114	1,098,183	62,927,297
Capital grants and contributions	1,511,983	-	1,511,983
General revenues:			
Property taxes	78,837,884	595,553	79,433,437
Intergovernmental revenues	3,626,232	-	3,626,232
Investment earnings	9,235,265	427,137	9,662,402
Miscellaneous	2,525,484	21,593	2,547,077
Gains (losses) on disposal/sale of capital assets	(1,287)	15,066	13,779
Total revenues	185,769,746	8,640,128	194,409,874
Expenses:			
Justice and law enforcement	34,598,275		34,598,275
Health and human services	74,646,711		74,646,711
Environment, parks and education	17,019,186		17,019,186
Public works	27,311,245		27,311,245
General government	13,711,530		13,711,530
Interest expense	3,141,167	44,555	3,185,722
Radio services		819,340	819,340
Golf courses		3,089,523	3,089,523
Ice arenas		1,016,964	1,016,964
Exposition center		753,348	753,348
Materials recovery facility		1,547,451	1,547,451
Airport		1,627,952	1,627,952
Total Expenses	170,428,114	8,899,133	179,327,247
Increase (decrease) in net assets before capital contributions and transfers	15,341,632	(259,005)	15,082,627
Capital contributions	28,561	317,623	346,184
Transfers	339,000	(339,000)	-
Increase (decrease) in net assets	15,709,193	(280,382)	15,428,811
Net assets 1/1/02	259,503,532	52,251,374	311,754,906
Net assets 12/31/02	\$ 275,212,725	\$ 51,970,992	\$ 327,183,717

## Governmental Activities

Governmental activities increased the County's net assets by \$15.3 million before capital contributions and transfers, or 100% of the total growth in the net assets of the County. This increase largely reflects the following items:

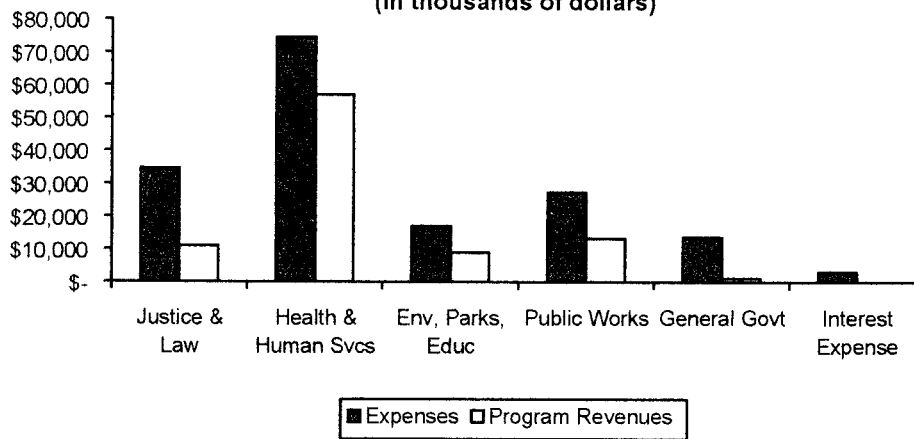
- The annual tax levy provides cash to fund capital project outlays; however the capital project expense is recognized over multiple years as depreciation, resulting in an increase in net assets for the year of \$9.1 million for 2002.
- Investment earnings of \$9.2 million exceeded budget amounts by \$2.8 million.
- Charges for services revenues, most notably in the Register of Deeds office, exceeded budgeted amounts by over \$2.0 million.

Revenues for the County's governmental activities total \$185.8 million, with property taxes accounting for 43% of the total revenue, followed by operating grants and contributions.



Governmental activities expenses total \$170.4 million, exceeding program revenue by \$78.9 million, as the following graph displays. When general revenues (which include such items as property tax, investment earnings, and grants and contributions not restricted to specific programs) are included, total revenues exceed expenses by \$15.3 million prior to capital contributions of \$28,561 and transfers in of \$339,000.

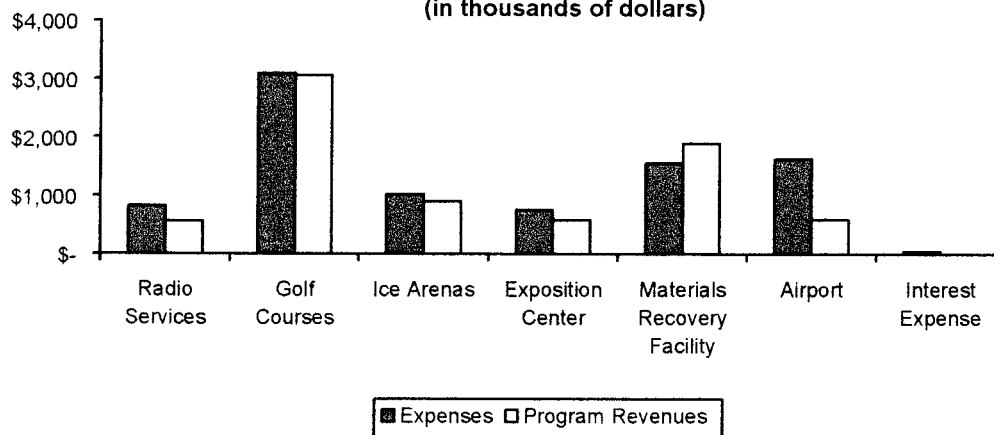
**Governmental Activities  
Expenses and Program Revenues  
2002  
(in thousands of dollars)**



**Business-Type Activities**

Business-type activities decreased the County's net assets by \$280,400. Key factors contributing to this decrease include favorable operating results of the, golf course and materials recovery facility funds offset a decrease in net assets of \$500,600 in the airport fund and a transfer of \$400,000 from the Golf Course funds to governmental funds for parkland acquisitions.

**Business-Type Activities Expenses  
2002  
(in thousands of dollars)**



## FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

As noted earlier, the County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental Funds.** The general government functions are contained in the General, Special Revenue, Debt Service, and Capital Project Funds. The focus of the County's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the County's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At December 31, 2002, the County's governmental funds reported combined fund balances of \$102.0 million, an increase of \$11.8 million in comparison with the prior year. Approximately 31% of the combined fund balance, \$31.3 million, constitutes unreserved and undesignated fund balance, which is available to meet the County's current and future needs. An additional \$20.4 million is unreserved, but has been designated for either capital projects or subsequent year's expenditures.

The remainder of fund balance is reserved to indicate that it is not available for new spending because it has been committed for one of the following: 1) to pay debt service (\$3.5 million); 2) to reflect inventories and the amount due from other funds that are long term in nature and thus do not represent available spendable resources (\$8.0 million); 3) to liquidate contractual commitments of the period (\$32.3 million); 4) for delinquent property taxes (\$6.2 million); and 5) for park purposes (\$.2 million).

The general fund, which is the chief operating fund of the County, increased in total fund balance by \$6.6 million for the year. The reserved and designated portions decreased by \$1.4 million, reflecting primarily the planned use of fund balance for one time capital projects. The undesignated, unreserved portion increased by \$8.1 million. The undesignated portion of the General fund, when combined with the unreserved Special Revenue fund balance, will provide working capital for about 10 weeks of operations based on the 2003 adopted budget.

The County has a policy that the ratio of undesignated general and special revenue fund balance to total operating expenditures shall be maintained above 11%. As of January 1, 2003 it is at 18.8%. However, over \$3.5 million of unrestricted fund balance results from unrealized gains on investments expected to be held to maturity. Adjusting for the unrealized gains drops the ratio to 16.7%. This level is over the County's managed plan reduction goal of 15% for January 2003. County policy limits use of fund balance to one-time costs, which in most cases reduce future operating budget costs.

The following schedules present a summary of general, special revenue, capital, and debt service fund revenues and expenditures for the fiscal year ended December 31, 2002 and the amount and percentage of increases and decreases in relation to prior years.

### Revenues by Source Governmental Funds

	2002 Amount	Percent of Total	Increase (Decrease) from 2001	
			Amount	Percent
Taxes	\$75,757,280	41%	\$4,052,088	6%
Intergovernmental revenues	68,306,672	37%	3,974,016	6%
Fines and licenses	3,393,102	2%	213,095	7%
Charges for services	17,256,440	9%	798,470	5%
Interdepartmental revenues	3,187,421	2%	(1,446,215)	-31%
Investment earnings	8,568,027	4%	1,058,769	14%
Miscellaneous revenues	<u>9,311,951</u>	<u>5%</u>	<u>(904,685)</u>	-9%
	\$185,780,893	100%	\$7,745,538	4%

Governmental property taxes increased by \$4.1 million to \$75.8 million, or 40.6% of total revenues. Tax levy represented 40% of total revenues in 2000 as well.

Intergovernmental revenues increased by almost \$4 million due in part to additional funding for Long Term Care programs (\$1.9 million) and other Human Services programs (\$1.6 million).

The decrease in interdepartmental revenues of \$1.4 million mainly reflects a change in the way State highway equipment revenues, and related expenses, are reflected in the Highway fund. Rather than through cross charges between the County and State cost centers, revenues and expenses are now recognized directly in the appropriate cost center. There is an offsetting decrease in Public Works expenditures as a result of this change as well.

#### Expenditures by Function Governmental Funds

	2002 <u>Amount</u>	Percent of <u>Total</u>	Increase (Decrease) from 2001	
			<u>Amount</u>	<u>Percent</u>
Justice and Law Enforcement	\$34,860,661	19%	\$1,715,859	5%
Health and Human Services	75,630,787	40%	5,545,286	8%
Environment, Parks & Education	16,083,615	9%	(1,175,104)	-7%
Public Works	19,030,266	10%	(799,582)	-4%
General Government	12,117,499	6%	(3,795,903)	-24%
Capital Project Funds	18,900,397	10%	5,380,543	40%
Debt Service:				
Principal Retirement	8,445,000	4%	345,000	4%
Payment for Early Retirement of Debt	0	0%	(16,400,000)	-100%
Interest and Fiscal Charges	<u>3,005,319</u>	<u>2%</u>	<u>10,279</u>	0%
	\$188,073,544	100%	(\$9,173,622)	-5%

General government expenditures decreased \$3.8 million from 2001 due to a one-time \$3.4 million payment of the County's unfunded prior service pension liability in 2001. The County also recorded an expenditure of \$1.9 million in 2001 and \$1.35 million in 2002 to increase the County's health insurance reserves to the level recommended by actuarial analysis.

Capital project expenditures increased \$5.4 million. Of this amount, \$2.2 million is attributable to roadway projects and \$2.9 million to building projects in Public Works.

**Proprietary funds.** Waukesha County's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Factors concerning the finances of these funds have already been addressed in the discussion of the County's business-type activities.

#### GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final amended budget resulted in a \$2.5 million increase in appropriations that can be briefly summarized as follows:

Carryovers and open purchase orders accounted for \$1.0 million; \$1.4 million reflects a transfer to the County's health insurance reserves to meet actuarial recommendations.

During the year actual revenues exceeded the budget by \$5.5 million. About 40% of this amount (\$2.3 million) is attributable to investment earnings. Approximately \$2 million is due to increased charges for services revenues; of that amount, \$1.3 million is in the Register of Deeds office, reflecting higher than expected levels of documents processed. Revenues from fines and licenses were about \$872,000 over budget.



Actual expenditures were less than budget by \$5.6 million, or 7% of the total modified budget. The County also appropriated \$1.35 million for contingencies; actual needed was \$175,000. The over-realization of revenues and under-utilization of appropriations eliminated the need to draw upon existing fund balance.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **Capital Assets**

The County's investment in capital assets for its governmental and business-type activities at December 31, 2002, amounted to \$263.8 million (net of accumulated depreciation). This investment in capital assets includes land and easements, infrastructure, structures and improvements, equipment, and construction in progress. Because this is the first year of reporting capital assets under GASB 34, comparisons to prior year amounts are not available.

The County's infrastructure assets are recorded at estimated historical cost in the government-wide financial statements. The County has elected to use the depreciation method of reporting capital assets.

Further details of the County's capital assets can be found in the notes to the financial statements.

### **Long-term debt**

At December 31, 2002, the County had \$65,085,000 of general obligation promissory notes outstanding. The County maintains an Aaa rating from Moody's Investors Service and AAA from Fitch Investors Service on general obligation note issues. Under current state statutes, the County's general obligation note issuances are subject to a legal limitation, based on five percent of the equalized value of taxable property in the County. As of December 31, 2002 the County's total amount applicable to debt margin (outstanding notes less debt service fund balance) is \$61.6 million, which was well below the legal limit of \$1.66 billion. The net debt per capita equaled \$177 at year-end.

During the year, the County issued \$14,600,000 of general obligation promissory notes, dated April 1, 2002 finance part of the cost of capital improvements within the County.

Further details of the County's long-term debt activity can be found in the notes to the financial statements.

### **Economic Factors and the 2003 Budget and Rates**

State shared revenue may see reductions in 2003 and beyond, as the state legislature works to find a resolution to the \$1.1 billion deficit that they face.

Health care premium cost increases are expected to increase about 30%, the level of increase the County experienced in 2002.

All of these factors were considered in preparing Waukesha County's budget for the 2003 fiscal year.

### **Request for Information**

This financial report is designed to provide a general overview of the County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Department of Administration, Accounting Services Division, 1320 Pewaukee Road, Waukesha, WI 53188.

Questions concerning any of the information provided in this report regarding the discretely presented component, Waukesha County Housing Authority, or requests for additional information should be addressed to the Waukesha County Housing Authority, 120 Corrina Blvd, Waukesha, WI 53186.

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